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Thursday January 17 8:03 AM ET

Former Enron Auditor Deflects Blame

By MARCY GORDON, AP Business Writer

WASHINGTON (AP) - The auditor fired for destroying documents in the Enron Corp. affair is laying the blame squarely on his accounting firm, Arthur Andersen LLP, telling congressional investigators he was just following advice from its lawyers.

The auditor was questioned for several hours Wednesday as the White House disclosed that President Bush's chief economic adviser, Lawrence Lindsey, was asked to study the impact of an Enron collapse after presidential aides were alerted to the problem last fall.

The energy-trading concern, once the seventh-largest U.S. company, entered the biggest bankruptcy in the country's history on Dec. 2.

David Duncan, the former chief auditor for Andersen's Enron account, said the Big Five accounting firm's lawyers suddenly began emphasizing Andersen's policy allowing destruction of some documents.

Duncan told investigators with the House Energy and Commerce Committee that in September general discussions began at Andersen of what Enron-related documents to discard.

``It was unusual'' to emphasize the document-destruction policy, Duncan told the investigators, according to congressional sources familiar with what he said. The sources spoke on condition of anonymity.

An Andersen spokesman declined comment.

According to the sources, Duncan told investigators that an Oct. 12 memo from one of Andersen's lawyers was the beginning of an effort to discard many records.

Andersen has said Duncan organized a two-week document destruction effort that began in late October. The accounting firm fired Duncan on Tuesday, put three other Enron auditors on administrative leave and stripped management responsibilities from four partners in its office in Houston, where Enron is based.

At the White House, spokesman Ari Fleischer said Lindsey concluded late last year that Enron's collapse would not

hurt the U.S. and global financial markets. That's the same finding reached by Peter Fisher, the Treasury undersecretary in charge of financial markets who opened a review after two phone calls from Lay to Treasury Secretary Paul O'Neill on Oct. 28 and Nov. 8.

Lindsey, a former member of the Federal Reserve board of governors and a private economic consultant at the time, received $50,000 from Enron in 2000 as a member of an Enron advisory board,

Enron has been Bush's biggest campaign benefactor over the years.

In another development Wednesday, it was disclosed that Enron executive Sherron Watkins told a friend and former colleague at Andersen on Aug. 20 that she had concerns about Enron's accounting practices. It was revealed this week that Watkins warned Enron's chairman, Kenneth Lay, about her concerns, which focused on outside partnerships used by Enron executives to keep hundreds of millions of dollars in debt off the company's books.

A hurried meeting at Andersen's Houston office took place Aug. 21 and Duncan participated. The meeting occurred the day before Watkins detailed her serious concerns in a meeting with Lay.

``It's now clear to us that key players at Andersen as well as Enron knew of the growing problems months before the company imploded," said Ken Johnson, spokesman for the House Energy and Commerce Committee.

Duncan ``cooperated fully with our investigators," Johnson said. ``He answered all of our questions."

Rep. James Greenwood, R-Pa., chairman of the panel's investigations subcommittee, revealed that the Andersen employee Watkins spoke to on Aug. 20 summarized their conversation.

``This document raises additional concerns about Andersen's knowledge of potential accounting irregularities and the subsequent destruction of Enron-related documents," Greenwood said.

After Watkins' phone call to her former colleague at Andersen on Aug. 20, the accounting firm notified Enron's general counsel and were told that the law firm Vinson & Elkins was conducting an investigation.

``We're still looking into the facts here," said Patrick Dorton, an Andersen spokesman. ``We don't know what additional steps were taken" by the accounting firm in response to the call from Watkins.

The accounting firm took out a full-page ad in major newspapers Wednesday seeking to assure the public that it would ``do what is right" in the Enron investigation and promising to cooperate with government and congressional investigations.

In related developments:

-The chairman of the Securities and Exchange Commission, Harvey Pitt, called a news conference for Thursday to discuss regulation of the accounting business, including a proposal to create an oversight body within the industry.

Several Democrats in Congress and the private group Common Cause called for Pitt, a securities lawyer who once represented Andersen, to remove himself from the SEC's civil investigation of Enron's accounting and Andersen's role in it.

The Justice Department is conducting a criminal probe of Enron.

-The former chief of staff for Sen. Joseph Lieberman, D-Conn., who is leading one of the investigations of Enron, tried unsuccessfully last summer to arrange a meeting between the senator and Lay, the Enron chairman. Lieberman's spokesman, Dan Gerstein, said he does not know what Lay wanted to discuss.

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Oddly Enough Headlines

Sources: Reuters | ABCNEWS.com

Wednesday January 16 3:30 PM ET

Actor's Plaque Mistakenly Honors King's Assassin

LAUDERHILL, Fla. (Reuters) - A plaque intended to honor black actor James Earl Jones at a Florida celebration of the life of Martin Luther King instead paid tribute to James Earl Ray, the man who killed the black civil rights leader, officials said on Wednesday.

The embarrassing mix-up was caused by an error by the plaque's designer, the owner of the company that ordered the plaque said. It was being corrected in time for Jones' visit to the Fort Lauderdale suburb on Saturday.

Over a background featuring stamps of famous black Americans, including King, the erroneous plaque read, ``Thank you James Earl Ray for keeping the dream alive."

He was the man who shot and killed King in a Memphis hotel in 1968. King is honored across the nation on Jan. 21, Martin Luther King Day.

``We were very upset," said Gerald Wilcox, owner of Lauderhill-based Adpro, which ordered the plaque for the city. "We wanted to find out how a mistake of this magnitude could occur and to try to determine if it was deliberate or not."

Wilcox said his company made it clear to the plaque's manufacturer, Texas-based Merit Industries, that the message was for James Earl Jones, the Tony Award-winning actor who voiced the roles of Darth Vader in ``Star Wars" and Mufasa in "The Lion King."

Merit Industries said the mix-up was caused by a typographical error.

``We in no way meant any disrespect. It was an honest error," said Herbert Miller, the owner of Merit Industries.

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